

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Chippewa River District Library	County Isabella
Fiscal Year End December 31, 2006	Opinion Date April 20, 2007	Date Audit Report Submitted to State April 26, 2007	

We affirm that:

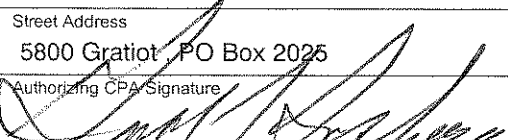
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number (989) 799-9580	
Street Address 5800 Gratiot, PO Box 2025		City Saginaw	State MI
Zip 48605			
Authorizing CPA Signature 	Printed Name Gerald J. Desloover, CPA		License Number



Mt. Pleasant, Michigan

Financial Statements

For the Year Ending December 31, 2006



REHMANN ROBSON

Certified Public Accountants

CHIPPEWA RIVER DISTRICT LIBRARY

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

April 20, 2007

To the Board of Trustees
Chippewa River District Library
Mt. Pleasant, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the **Chippewa River District Library** (the "Library") as of and for the year ending December 31, 2006, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Library as of December 31, 2006, and the respective changes in financial position and the budgetary comparison of the General Fund for the year then ended in conformity with accounting principles general accepted in the United States of America.

The Management's Discussion and Analysis listed in the table of contents on pages 3-7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise *Chippewa River District Library's* basic financial statements. The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The script is cursive and fluid, with the first name "Lehmann" and last name "Lohman" clearly distinguishable.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report presents management's discussion and analysis of Chippewa River District Library's (hereon referred to as "the Library") performance during the fiscal year ending December 31, 2006. Please read this along with the financial statements of the Library.

Financial Highlights

- The assets of the Library exceeded its liabilities at the close of the December 31, 2006, fiscal year by \$3,178,499 (net assets). Of this amount, \$173,920 (unrestricted net assets) may be used to meet the government's ongoing obligations for Library programs.
- The General Fund received \$2,047,830 in revenues and had \$2,126,787 in expenditures. The General Fund's fund balance decreased to \$227,873 from \$231,830.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$227,873 or 10% of total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to provide a basis of understanding of the Library's basic statements. These statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

Government –Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Library's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Library's assets and liabilities, with the differences between the two reported as net assets. Overtime, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Chippewa River District Library, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Library maintains one governmental fund.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term

inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds (modified accrual) statements with similar information presented for government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Chippewa River District Library adopts an annual appropriated budget for the operating fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

Notes to the financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 11-24 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Library, assets exceeded liabilities by \$3,178,499 at the end of the December 31, 2006, fiscal year.

Summary of Net Assets

	<u>12/31/06</u>	<u>12/31/05</u>
Assets		
Current Assets	\$ 964,890	\$ 990,961
Capital Assets, net	<u>3,064,295</u>	<u>2,950,789</u>
Total assets	\$ 4,029,185	\$ 3,941,750
Liabilities		
Current Liabilities	\$ 737,017	\$ 743,004
Long-term Liabilities	<u>113,669</u>	<u>66,422</u>
Total Liabilities	\$ 850,686	\$ 809,426
Net Assets		
Invested in capital assets, net of related debt	\$ 3,004,579	\$ 2,925,590
Unrestricted	<u>173,920</u>	<u>206,734</u>
Total Net Assets	<u>\$ 3,178,499</u>	<u>\$ 3,132,324</u>

The net assets is separated into two major components; invested in capital assets (e.g., equipment), which amounted to \$3,004,579 or 95% of net assets and unrestricted net assets of \$173,920 or 5% of net assets. Unrestricted net assets may be used to meet the government's ongoing obligations to its programs.

The Library's net assets increased by \$46,175 during the current fiscal year. Most of this increase largely reflects the degree to which ongoing revenues exceeded ongoing expenses. In the current year, the Library received the Public Access Computer Hardware Upgrade Grant, which increased their local grant revenue.

Statement of Activities

Revenue	<u>12/31/06</u>	<u>12/31/05</u>
Program Revenues		
Federal grants	\$ 750	\$ 12,983
State aid/grants	45,227	76,184
Local grants	83,771	
Contracts and other fees	198,088	186,025
Penal fines	412,429	463,499
Donations	14,569	16,128
General Revenues:		
Interest	17,802	11,520
Sale of fixed assets	770	
Property taxes	<u>1,250,524</u>	<u>1,122,629</u>
Total revenue	\$ 2,023,930	\$ 1,888,968
Expenses		
Recreation and cultural	\$ 1,931,716	\$ 1,805,875
Capital outlay	43,959	56,038
Debt service	<u>2,080</u>	<u>1,357</u>
Total Expenses	\$ 1,977,755	\$ 1,863,270
Increase in Net Assets	<u>\$ 46,175</u>	<u>\$ 25,698</u>

The change in net assets differs from the change in fund balance because of different accounting requirements. A reconciliation appears in the notes to the financial statements.

Summary of Fund Financial Statements

Governmental fund. As noted earlier, the focus of the governmental fund (modified accrual) financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Library's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Library's governmental fund reported an ending fund balance of \$227,873, a decrease of \$3,957 from the prior year. 100% or \$227,873 of the fund balance constitutes unreserved fund balance, which is available for spending at the Library's discretion. None of this money is designated for property tax collections.

The decrease in the fund balance of \$3,957 indicates that expenditures were in excess of revenues for the year.

Budgetary Highlights

The Library annually prepares formal budgets with amendments made when necessary. Each of the amendments are approved by the Board. Approximately 82% of the Library's revenue comes from property taxes and penal fines.

State law requires that expenditures do not exceed appropriations. Original and final budgets, as well as actual amounts paid and received, are included in the basic financial statements.

The General Fund received \$2,047,830 in revenues and had \$2,126,787 in expenditures. The General Fund's fund balance decreased to \$227,873 from \$231,830.

The actual General Fund expenditures were within \$28,598 of the final budget amounts. The decrease in the actual General Fund revenues from the final budgeted amounts is due to receiving less property taxes and penal fines during the year than expected. Also, other fees were less than expected.

Capital Assets

As of December 31, 2006, the Library had \$3,064,295 in capital assets consisting of land, buildings and improvements, various pieces of furniture and equipment and library materials.

Capital Assets (net of depreciation) December 31, 2006

Land	\$ 160,000
Buildings and improvements	2,219,181
Furniture and equipment	878,082
Library materials	<u>2,593,317</u>
Subtotal	5,850,580
Less accumulated depreciation	<u>(2,786,285)</u>
Net capital assets	<u>\$ 3,064,295</u>

Additional information regarding capital assets can be found in note III.B. of the financial statements.

Economic Factors and Next Year's Budget

The following factors were considered in preparing the Library's budget for the 2007 fiscal year:

- Increase in wages and healthcare premiums
- Expected property tax and penal fine revenues
- Special projects and needs of the library

Requests for Information

This financial report is designed to provide a general overview of the Library's finances, and to demonstrate the Library's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to Lise Mitchell, Chippewa River District Library, 301 S. University Avenue, Mt Pleasant, MI 48858.

BASIC FINANCIAL STATEMENTS

CHIPPEWA RIVER DISTRICT LIBRARY

STATEMENT OF NET ASSETS AND BALANCE SHEET - GOVERNMENTAL FUND

DECEMBER 31, 2006

ASSETS	General Fund	Adjustments	Statement of Net Assets
Cash and cash equivalents	\$ 267,113	\$ -	\$ 267,113
Receivables			
Accounts	5,365	-	5,365
Taxes	590,699	-	590,699
Due from other governmental units	88,907	-	88,907
Prepays	12,806	-	12,806
Capital assets, net:			
Assets not being depreciated	-	160,000	160,000
Assets being depreciated	-	2,904,295	2,904,295
TOTAL ASSETS	<u><u>\$ 964,890</u></u>	<u><u>3,064,295</u></u>	<u><u>4,029,185</u></u>
LIABILITIES			
Accounts payable	\$ 30,750	-	30,750
Accrued payroll and related liabilities	22,326	-	22,326
Deferred/unearned revenue	683,941	(21,995)	661,946
Long-term liabilities:			
Due within one year	-	52,862	52,862
Due after one year	-	82,802	82,802
TOTAL LIABILITIES	<u><u>737,017</u></u>	<u><u>113,669</u></u>	<u><u>850,686</u></u>
Revenues over (under) expenditures			
FUND BALANCES/NET ASSETS			
Fund balance:			
Unreserved			
Undesignated	<u><u>227,873</u></u>	<u><u>(227,873)</u></u>	<u><u>-</u></u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 964,890</u></u>		
Net assets:			
Invested in capital assets, net of related debt		3,004,579	3,004,579
Unrestricted		<u><u>173,920</u></u>	<u><u>173,920</u></u>
TOTAL NET ASSETS		<u><u>\$ 3,178,499</u></u>	<u><u>\$ 3,178,499</u></u>

The accompanying notes are an integral part of these financial statements.

CHIPPEWA RIVER DISTRICT LIBRARY

STATEMENT OF ACTIVITIES AND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2006

	General Fund	Adjustments	Statement of Activities
EXPENDITURES/EXPENSES			
Recreation and cultural	\$ 1,712,372	\$ 219,343	\$ 1,931,715
Capital outlay	371,850	(327,891)	43,959
Debt service	42,565	(40,484)	2,081
TOTAL EXPENDITURES/EXPENSES	<u>2,126,787</u>	<u>(149,032)</u>	<u>1,977,755</u>
PROGRAM REVENUES			
Federal grants	750	-	750
State aid/grants	45,227	-	45,227
Local grants	83,771	-	83,771
Contract and other fees	198,088	-	198,088
Penal fines	412,429	-	412,429
Donations	14,569	-	14,569
TOTAL PROGRAM REVENUES	<u>754,834</u>	<u>-</u>	<u>754,834</u>
NET PROGRAM EXPENSE			<u>1,222,921</u>
GENERAL REVENUES			
Property taxes	1,274,424	(23,900)	1,250,524
Sale of capital assets	770	-	770
Interest	17,802	-	17,802
TOTAL REVENUES OVER (UNDER) EXPENDITURES	<u>1,292,996</u>	<u>(23,900)</u>	<u>1,269,096</u>
OTHER FINANCING SOURCES			
Loan proceeds	75,000	(75,000)	-
CHANGE IN FUND BALANCE	(3,957)	3,957	-
CHANGE IN NET ASSETS	-	50,132	46,175
FUND BALANCE/NET ASSETS, BEGINNING OF YEAR	<u>231,830</u>	<u>2,900,494</u>	<u>3,132,324</u>
FUND BALANCE/NET ASSETS, END OF YEAR	<u><u>\$ 227,873</u></u>	<u><u>\$ 2,950,626</u></u>	<u><u>\$ 3,178,499</u></u>

The accompanying notes are an integral part of these financial statements.

CHIPPEWA RIVER DISTRICT LIBRARY

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance- Positive (Negative)</u>
Revenues				
Property taxes	\$ 1,300,000	\$ 1,286,660	\$ 1,274,424	\$ (12,236)
Federal grants	750	750	750	-
State aid/grants	49,370	37,877	45,227	7,350
Local grants	-	62,522	83,771	21,249
Contract fees	128,260	128,900	128,900	-
Other fees	58,275	145,960	69,188	(76,772)
Penal fines	500,000	450,000	412,429	(37,571)
Donations	-	13,564	14,569	1,005
Sale of capital assets	-	-	770	770
Interest revenue	<u>2,000</u>	<u>3,805</u>	<u>17,802</u>	<u>13,997</u>
Total revenues	<u>2,038,655</u>	<u>2,130,038</u>	<u>2,047,830</u>	<u>(82,208)</u>
Expenditures				
Recreation and cultural	1,631,815	1,684,204	1,712,372	(28,168)
Capital outlay	284,640	371,420	371,850	(430)
Debt service	<u>22,950</u>	<u>42,565</u>	<u>42,565</u>	<u>-</u>
Total expenditures	<u>1,939,405</u>	<u>2,098,189</u>	<u>2,126,787</u>	<u>(28,598)</u>
Revenues over (under) expenditures	99,250	31,849	(78,957)	(110,806)
Other financing sources	<u>-</u>	<u>-</u>	<u>75,000</u>	<u>75,000</u>
Net change in fund balances	99,250	31,849	(3,957)	(35,806)
Fund balance, beginning of year	<u>231,830</u>	<u>231,830</u>	<u>231,830</u>	<u>-</u>
Fund balance, end of year	<u>\$ 331,080</u>	<u>\$ 263,679</u>	<u>\$ 227,873</u>	<u>\$ (35,806)</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

CHIPPEWA RIVER DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The *Chippewa River District Library*, “Library,” is a not-for-profit Michigan Municipal Corporation established under the authority of the District Library Establishment Act, 1989 PA 24, as amended, and the District Library Financing Act, 1988 PA 265, as amended. The Library is governed by a Board of Trustees appointed by the City of Mt. Pleasant, the Mt. Pleasant Public School District and the Charter Township of Union. The Library was officially recognized by the Library of Michigan on May 19, 1998 and successfully passed its first operational millage on December 21, 1998. Prior to district library status, the library operated as a department of the City of Mt. Pleasant under the authority of PA 164 of 1877.

The service area of the Library encompasses the boundaries of the Mt. Pleasant Public School District including the City of Mt. Pleasant and Union Township. In addition, the Library serves all residents of Isabella County through a contractual arrangement with the Isabella County Library Board. The Library consists of two in-district branches, Veterans Memorial Library in Mt. Pleasant and the Faith Johnston Memorial Library in Rosebush. The Library also operates four out-of-district branches in Coe, Fremont, Rolland and Sherman Townships.

Funds for the Library come from assessments on property in the Library District, penal fines, state aid, fines, fees, grants, donations, and Isabella County contract payments. As a municipal government, the Library is not subject to state or federal taxes.

The accounting policies of the *Chippewa River District Library* conform to generally accepted accounting principles, as applicable to governments. The following is a summary of the more significant policies.

A. THE REPORTING ENTITY

The Library has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be consolidated into its financial statements as component units, entities for which the government is considered to be financially accountable. Therefore, the reporting entity consists of the primary government financial statements only.

CHIPPEWA RIVER DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (e.g., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Library has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

The general fund is the Library's only major fund and is reported as a separate column in the financial statements.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

CHIPPEWA RIVER DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

Property taxes, intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those, if any, required to be accounted for in another fund. Revenues are derived primarily from property taxes and penal fines.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources as they are needed.

D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY

1. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of deposits in checking accounts and short-term investments with maturity periods of less than three months.

2. INVESTMENTS

Michigan law authorizes the Library to deposit and invest in:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified institution.

CHIPPEWA RIVER DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Banker's acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the investments company act of 1940 with the Library to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

3. RECEIVABLES

All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

4. CAPITAL ASSETS

Capital assets are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of \$300 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets, if any, are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

CHIPPEWA RIVER DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

Major outlays for capital assets and improvements are capitalized when purchased. Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	15-40
Library materials	20
Furniture and equipment	5-20

5. DEFERRED REVENUES

Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Deferred revenue recorded in the General Fund represents the property taxes levied in Library served townships on December 1, 2006, grant funds received in excess of expended or properly matched amounts, and delinquent property taxes uncollected for all Library served municipalities.

6. LONG-TERM DEBT

In the government-wide financial statements, long-term debt is reported as a liability in the statement of net assets. In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources.

7. COMPENSATED ABSENCES

Library employees are granted vacation and sick pay in varying amounts based on length of service and union contracts.

Employees may accumulate vacation time until termination of employment, up to a maximum of 280 hours. At the time of termination of their employment, employees are eligible to receive payment for their unused vacation time, at their current hourly rate as of the date of termination.

Employees may accumulate sick leave until termination of employment, up to a maximum of 1,600 hours. Employees who retire are compensated for 50 percent of their total accumulated sick leave, at their current hourly rate as of the date of retirement.

CHIPPEWA RIVER DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

A liability for compensated absences is reported in the General Fund only if they have matured, for example, as a result of employee resignations and retirements.

8. PROPERTY TAXES

Property taxes are levied July 1, on the taxable valuation of property located in the City of Mt. Pleasant as of the preceding December 31. On July 1, the property tax attachment is an enforceable lien on property and is payable by July 31. The July 2006 levy is recognized as revenue for the year ended December 31, 2006. Property taxes are levied on December 1, on the taxable valuation of property located in Library served townships located in Isabella County as of the preceding December 31. On December 1, the property tax attachment is an enforceable lien on property and is payable by the last day of the following February. The December 2005 levy is recognized as revenue for the year ended December 31, 2006.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETS AND BUDGETARY ACCOUNTING

A comparison to budget is presented for the General Fund as required by generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Library. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). General Fund expenditures are budgeted at the following classification levels: recreation and cultural, capital outlay, and debt service expenditures.

Adoption and amendments of budgets used by the Library are governed by Public Act 621. Any amendment of the original budget must meet the requirements of Public Act 621. Budgets are adopted by cost center for the General Fund. Encumbrance accounting is not utilized by the Library.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS FOR BUDGETARY FUNDS

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures that are in excess of the amount appropriated. During the year ended December 31, 2006, the Library incurred expenditures in the General Fund, which were in excess of the amounts appropriated in cost centers as follows:

CHIPPEWA RIVER DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

	<u>Budget</u>	<u>Actual</u>	<u>Budget Variance</u>
Recreation and cultural	\$ 1,684,204	\$ 1,712,372	\$ (28,168)
Capital outlay	371,420	371,850	(430)

III. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

	<u>Carrying Amount</u>
Government-wide Financial Statement Captions:	
Cash and cash equivalents	<u>\$ 267,113</u>
Notes to Financial Statements:	
Deposits	\$ 104,537
Investments	161,986
Cash on hand	<u>590</u>
Total	<u>\$ 267,113</u>

The Library chooses to disclose its investments by specifically identifying each. As of December 31, 2006, the Library had the following investments.

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
MBIA Class Fund	n/a	<u>\$ 161,986</u>	AAA/V1+ Fitch

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments at Note I.D.2. The Library's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment

CHIPPEWA RIVER DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

pools as identified in the list of authorized investments above. The Library's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned. State law does not require and the Library does not have a policy for deposit custodial credit risk. As of year end \$21,315 of the Library's bank balance of \$121,315 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Library does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk, as these investments are uncategorized as to credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Library's investment policy does not have specific limits in excess of state law on concentration of credit risk. The Library's investment is in the MBIA Michigan CLASS pool, not the securities that make up the pool. Therefore, there is no concentration of credit risk to be disclosed.

CHIPPEWA RIVER DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

B. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 150,000	\$ 10,000	\$ -	\$ 160,000
Capital assets being depreciated:				
Buildings and improvements	2,144,648	74,533	-	2,219,181
Furniture and equipment	818,311	86,080	(26,309)	878,082
Library materials	<u>2,593,657</u>	<u>157,278</u>	<u>(157,618)</u>	<u>2,593,317</u>
Total capital assets being depreciated	<u>5,556,616</u>	<u>317,891</u>	<u>(183,927)</u>	<u>5,690,580</u>
Less accumulated depreciation				
Buildings and improvements	(972,583)	(40,700)	-	(1,013,283)
Furniture and equipment	(528,006)	(75,075)	19,561	(583,520)
Library materials	<u>(1,255,238)</u>	<u>(91,862)</u>	<u>157,618</u>	<u>(1,189,482)</u>
Total accumulated depreciation	<u>(2,755,827)</u>	<u>(207,637)</u>	<u>177,179</u>	<u>(2,786,285)</u>
Total capital assets being depreciated, net	<u>2,800,789</u>	<u>110,254</u>	<u>(6,748)</u>	<u>2,904,295</u>
Governmental activities capital assets, net	<u>\$ 2,950,789</u>	<u>\$ 120,254</u>	<u>\$ (6,748)</u>	<u>\$ 3,064,295</u>

CHIPPEWA RIVER DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

C. DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the General Fund were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes receivable	\$ 21,995	\$ 655,705
Grant drawdowns prior to meeting all eligibility requirements	<u>-</u>	<u>6,241</u>
Total	<u>\$ 21,995</u>	<u>\$ 661,946</u>

CHIPPEWA RIVER DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

D. LONG-TERM DEBT

Changes in Long-Term Debt

Long-term liability activity for the year ended December 31, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Note payable for annex building: original issuance of \$120,000 with a monthly maturity of \$3,427 through June 2006 at an interest rate of 1.79%	\$ 20,456	\$ -	\$ (20,456)	\$ -	\$ -
Note payable for copier: original issuance of \$9,296 with a monthly maturity of \$198 through March 2008 at an interest rate of 10.09%	4,744	-	(1,972)	2,772	2,188
Note payable for 4035 N. Mission in Rosebush: original issue of \$75,000 with a monthly maturity of \$2,984 to \$3.322 through June 2008 at an interest rate of 4.8%	-	75,000	(18,056)	56,944	37,466
Compensated absences	<u>70,990</u>	<u>12,298</u>	<u>(7,340)</u>	<u>75,948</u>	<u>13,208</u>
Total	<u>\$ 96,190</u>	<u>\$ 87,298</u>	<u>\$ (47,824)</u>	<u>\$ 135,664</u>	<u>\$ 52,862</u>

CHIPPEWA RIVER DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

Annual principal and interest requirements to service all debt outstanding as of December 31, 2006, are as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 39,654	\$ 2,129
2008	<u>20,062</u>	<u>289</u>
Total	<u>\$ 59,716</u>	<u>\$ 2,418</u>

IV. OTHER INFORMATION

A. DEFINED BENEFIT PENSION PLAN

Plan Description

The Library's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Library participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The obligation to contribute to and maintain the system for union and non-union employees was established by negotiation with the City of Mt. Pleasant's competitive bargaining units when the Library was a part of the City. The Library continued this funding policy beginning January 1, 2000. The Library is required to contribute at an actuarially determined rate. Employees are required to contribute to the Plan at a rate of 4%. The contribution requirements of the Library are established, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Library, depending on the MERS contribution program adopted by the Library.

CHIPPEWA RIVER DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

Annual Pension Cost

For the year ending December 31, 2006, the Library's annual pension cost of \$41,752 for MERS was equal to the Library's required and actual contribution. The required contribution was determined as part of the December 31, 2004, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0% and (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Library's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2005, the date of the latest actuarial valuation, was 30 years.

Trend Information

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension (Asset)</u>
12/31/04	\$40,166	100%	\$0
12/31/05	40,293	100%	0
12/31/06	41,752	100%	0

Schedule of Funding Progress

<u>Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/03	\$1,101,138	\$1,090,110	\$(11,028)	101.0%	\$577,097	0%
12/31/04	1,249,916	1,220,334	(29,582)	102.4%	669,401	0%
12/31/05	1,404,422	1,319,024	(85,398)	106.5%	679,047	0%

CHIPPEWA RIVER DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

B. RISK MANAGEMENT

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Library carries commercial insurance for risks to cover these losses.

C. COMMITMENTS AND CONTINGENCIES

In the normal course of operations, the Library becomes a party to various claims and lawsuits. In the opinion of the legal counsel and Library management, the ultimate resolution of such matters would not have a material effect on the financial position of the Library. There were no pending claims or lawsuits during the year ended December 31, 2006.

D. ADJUSTMENTS

Following is an explanation of the adjustments between the governmental fund balance sheet and the government-wide statement of net assets, which reconciles fund balance to net assets:

Governmental fund balance	\$ 227,873
Adjustments:	
Capital assets	5,850,580
Accumulated depreciation	(2,786,285)
Deferred revenue on taxes receivable	21,995
Accrued compensated absences	(75,948)
Notes payable	<u>(59,716)</u>
Net assets of governmental activities	<u>\$ 3,178,499</u>

CHIPPEWA RIVER DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

Following is an explanation of the adjustments between the governmental fund revenues, expenditures and changes in fund balance and the government-wide statement of activities, which reconciles fund balance to net assets:

Change in fund balance	\$ (3,957)
Adjustments:	
Capital outlay expense	327,891
Depreciation expense	(207,637)
Loss on disposal of capital assets	(6,748)
Principal paid on notes	40,484
Proceeds on note payable	(75,000)
Change in deferred revenue related to taxes receivable	(23,900)
Increase in compensated absences	<u>(4,958)</u>
Change in net assets	<u>\$ 46,175</u>

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CHIPPEWA RIVER DISTRICT LIBRARY

GENERAL FUND

SCHEDULE OF EXPENDITURES BUDGET TO ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2006

	Original Budget	Amended Budget	Actual	Variance- Positive (Negative)
Recreation and Cultural				
Personnel expenditures	\$ 990,515	\$ 1,039,354	\$ 1,039,388	\$ (34)
Fringe benefits	182,480	172,162	172,126	36
Supplies	96,455	124,223	124,221	2
Contracted services	215,385	202,961	202,963	(2)
Other operating expenditures	146,980	145,504	173,674	(28,170)
Total Recreation and Cultural	<u>1,631,815</u>	<u>1,684,204</u>	<u>1,712,372</u>	<u>(28,168)</u>
Capital Outlay				
Library materials	222,640	219,939	219,939	-
Capital outlay	62,000	139,937	140,368	(431)
Memorials/donations	-	11,544	11,543	1
Total Capital Outlay	<u>284,640</u>	<u>371,420</u>	<u>371,850</u>	<u>(430)</u>
Debt service	<u>22,950</u>	<u>42,565</u>	<u>42,565</u>	<u>-</u>
Total Expenditures	<u>\$ 1,939,405</u>	<u>\$ 2,098,189</u>	<u>\$ 2,126,787</u>	<u>\$ (28,598)</u>

Revenues over (under) expenditures



REHMANN ROBSON

Certified Public Accountants

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April 20, 2007

To the Board of Trustees
Chippewa River District Library
Mt. Pleasant, Michigan

In planning and performing our audit of the financial statements of ***Chippewa River District Library*** as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Library's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control.

However, during our audit we became aware of a matter that is an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated April 20, 2007, on the financial statements of the ***Chippewa River District Library***.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various Library personnel, and we will be pleased to discuss this comment in further detail at your convenience, or perform any additional studies of this matter, or to assist you in implementing the recommendation.

CHIPPEWA RIVER DISTRICT LIBRARY

COMMENTS AND RECOMMENDATIONS

1) Credit Card Purchases

Our examination of various credit card disbursements showed that several purchases did not contain the required receipt/supportive documentation. The Library has adopted a policy for all employees, that a receipt must accompany the original invoice from the credit card company.

Recommendation:

We recommend that the Library enforce its policy that all purchases made by employees with Library credit cards must provide receipts to the appropriate Library personnel for verification that the purchase is acceptable.